



Employees' Retirement Board of Rhode Island
Monthly Meeting Minutes
Wednesday, May 9, 2012
9:00 a.m.
2nd Floor Conference Room, 50 Service Avenue

The Monthly Meeting of the Retirement Board was called to order at 9:10 a.m. Wednesday, May 9, 2012, in the 2nd Floor Conference Room, 50 Service Avenue, Warwick, RI.

I. Roll Call of Members

The following members were present at roll call: General Treasurer Gina M. Raimondo; Vice Chair William B. Finelli; Gary R. Alger, Esq.; Daniel L. Beardsley; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; Susan Knorr Rodriguez designee for Richard A. Licht; John P. Maguire; John J. Meehan and Louis M. Prata.

Also in attendance: Frank J. Karpinski, ERSRI Executive Director; Attorney Michael P. Robinson, Board Counsel.

Recognizing a quorum, Treasurer Raimondo called the meeting to order.

Thomas A. Mullaney and Jean Rondeau arrived at 9:24 and 9:20 respectively.

II. Approval of Minutes

Mr. Boudreau asked that the minutes reflect a comment he made during the discussion of the SRA Plus option in Section Three, *Presentation and Approval of the Actuarial Valuation as of June 30, 2011 by Gabriel, Roeder, Smith and Company (GRS)*, the Board unanimously agreed and instructed Director Karpinski to amend the minutes to reflect the comment. On a motion by Gary R. Alger and seconded by M. Carl Heintzelman, it was unanimously

VOTED: To approve the amended draft minutes of the April 11, 2012 meeting of the Employees' Retirement System of Rhode Island Board.

III. Chairperson's Report

Treasurer Raimondo provided the Board with an investment update. She said the total assets under management as of March 31, 2012 are \$7.4 billion and the investment year-to-date return is 6.8%. The month return for March was 0.9%.

Treasurer Raimondo then turned over the discussion to Deputy Treasurer Attorney Mark Dingley and Andrew Raucci, DC Plan Administrator, to provide an update on the Defined Contribution plan implementation effective for July 1, 2012. The Treasurer acknowledged that a representative from TIAA-CREF was present in the audience and welcomed them to add to the discussion.

Deputy Treasurer Dingley said that the DC plan is moving forward and making good progress. He said Mr. Raucci is managing the project and mentioned that both Director

Karpinski and Finance Director Saul are working diligently to assist in meeting the implementation deadline.

Mr. Raucci began the presentation by providing the Board a high level timeline and an update on funds authorized by the State Investment Commission (SIC). He said over the past month, he and TIAA-CREF have reached out to the 200 payroll centers and conducted 10 webinars to provide training on the new remittance and file process and procedures. Attorney Dingley commended Mr. Raucci for visiting the locations where no responses had been received.

Mr. Raucci then said TIAA-CREF received a bulk enrollment file from Mr. Saul. He told the Board that the enrollment of 30,000 participants will happen in the next two weeks. He then said on May 21, 2012, TIAA-CREF will open the Providence office. TIAA-CREF has hired 7 employees, 4 of which will be wealth manager counselors.

Mr. Raucci said the investment lineup which was approved by the SIC has low cost options but diversified investment choices. He told the Board that if members do not choose an by July 1, 2012, they will be defaulted to an investment with Vanguard Funds (known as target retirement date funds) contingent on the participant's age and estimated date of retirement.

Mr. Raucci said participants will be receiving a payroll stuffer, a welcome letter, as well as frequently asked questions and a transition guide in the next 2 weeks. Mr. Raucci said that TIAA-CREF is ready to bring the Board resources and at the Board's discretion, conduct fiduciary training related to Defined Contribution plans.

Mr. Maguire asked for a breakdown of the fee structure. Deputy Treasurer Dingley said it is a \$32 service fee and \$8 for the State's administration fee. He reiterated that TIAA-CREF is a low cost program.

There being no further questions, Attorney Dingley and Mr. Raucci concluded their report.

IV. Executive Director's Report

Director Karpinski apprised the Board that they are in possession of the Pension Application Report, Disability Subcommittee Report, and the disability books on Edward J. Young.

Review and Approval of Investment return Used to Trigger Annual Benefit adjustments Presentation by *Gabriel, Roeder, Smith and Company*

Director Karpinski then, via video conference call, began the presentation with Mr. Joseph P. Newton of Gabriel, Roeder, Smith and Company (GRS). Board members were provided copies of the presentation prepared by Mr. Newton.

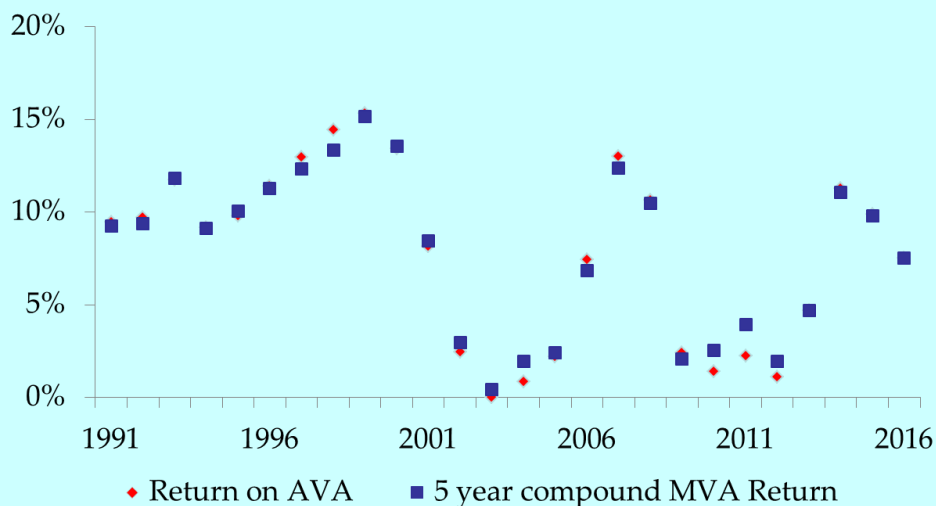
Mr. Newton began his presentation and said, as discussed in the last Board meeting, the new provisions for determining post-retirement benefit adjustments (COLA) are based on the actual investment performance of the System i.e., the 5 year average return less 5.5%. The COLA is capped at 4% and will not be less than 0%. The percent should be net of investment and administrative expenses. He reminded the Board that the legislation requires the ERSRI Board to set the method used to determine the 5 year average.

Mr. Newton told the Board there are two methods to choose from. First, use the return on the actuarial value of assets (AVA). He said it represents a 5 year smoothed return and is not biased to be higher or lower than the market value of assets at any point in time. The average return on actuarial value will be equivalent to the return on the market value over time. He said it will be tied to and consistent with the asset gains/losses recognized in each valuation.

The second method is the use of the actual geometric average of the last 5 year market returns disclosed in the valuation report which is already a net of expense number.

Mr. Newton apprised the Board that over time, the two methods should be equivalent. He provided the Board the following graph to demonstrate his point:

Actual 5 Year Average Returns



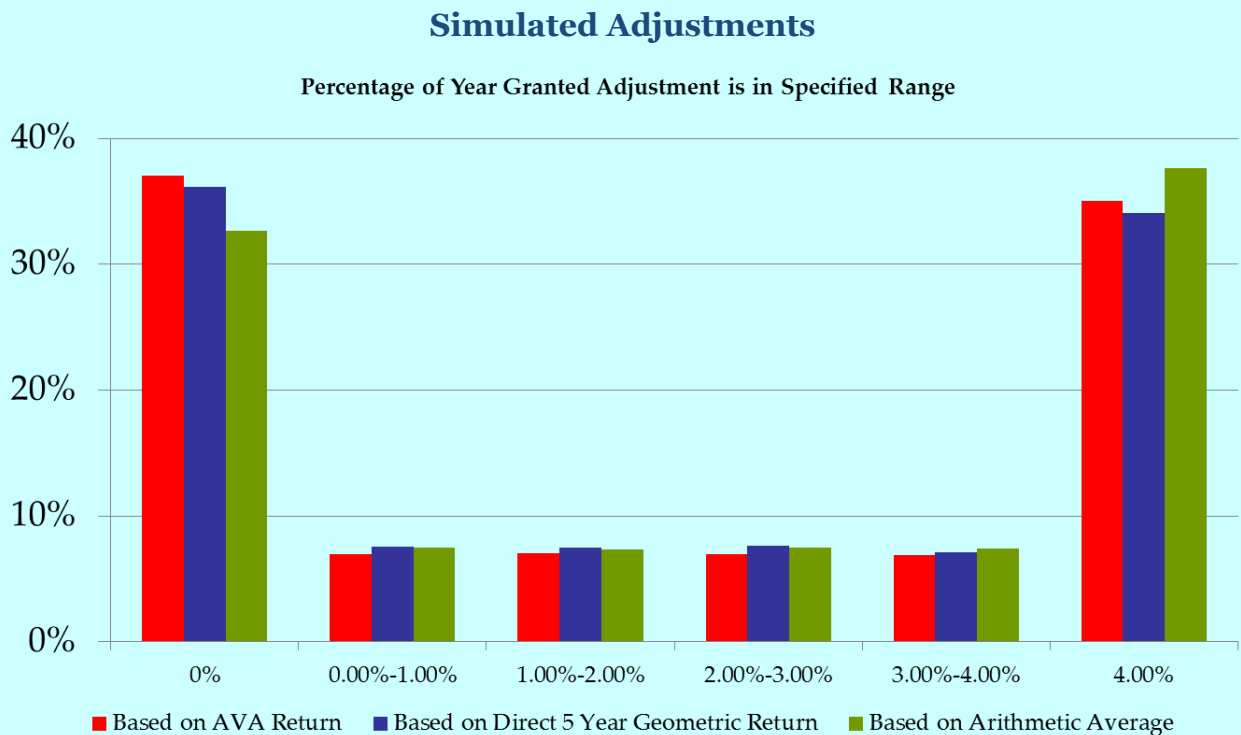
The above is based on actual historical ERSRI returns, and a 7.50% return prospectively
Average AVA return during period: 7.78%
Average 5 Year Geometric Return: 7.87%

While both methods would be considered appropriate, GRS's recommendation would be to use the AVA return. He said it ensures consistency amongst recognized returns in the annual valuation process and ensures consistency with the spirit of the benefit provision. He told the Board that an asset gain would always be offset by a liability loss; likewise an asset loss would always be offset by a liability gain.

Mr. Newton told the Board that it has been questioned why the arithmetic average cannot be used. He said all average market returns over periods of time are displayed based on geometric returns, e.g. starting with \$100, if the portfolio loses 10%, then gains 10%, the portfolio does not make it back to \$100 ($\$100 \times 0.9 = \90 , $\$90 \times 1.10 = \99). Mr. Newton said the arithmetic average would be 0 and the geometric average is -0.50% i.e. the portfolio will grow based on geometric returns. Additionally, if the arithmetic return is used, the assumption in the valuation would need to be increased 0.25%-0.50%, which would increase the employer contribution requirements, and likely push some MERS units currently over 80% below the 80% threshold.

Mr. Beardsley asked if the rates that Mr. Newton is discussing are the FY14 rates or the FY 13 rates. Mr. Newton said they are the FY14 rates approved last month and if the arithmetic average is chosen by the Board, the entire valuation would have to be redone.

Mr. Newton then provided the following graph of simulated adjustments to demonstrate the percentage of years COLA's could be granted in specified ranges to assist the Board in evaluating the three methods.



Simulated 1,000 50 year economic scenarios with mean return of 7.50% and standard deviation of 11.60%
 Average adjustment based on AVA return during period: 1.96%, Median: 1.84%
 Average adjustment based 5 Year Geometric Return: 1.95%, Median 1.84%
 Average adjustment based 5 Year Arithmetic Return: 2.10%, Median 2.33%

A motion was then made by Gary R. Alger, Esq., and seconded by Jean Rondeau to use the return on the actuarial value of assets (AVA) for purposes of determining periodic cost of living adjustments as recommended by GRS.

A roll call was then taken and the following voted yea: General Treasurer Gina M. Raimondo; William B. Finelli; Gary R. Alger, Esq.; Daniel L. Beardsley; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; Susan K. Rodriguez designee for Richard A. Licht; John J. Meehan; Thomas A. Mullaney; Louis M. Prata, and Jean Rondeau. The following voted Nay: John P. Maguire.

There being 13 votes to cast, 12 voted in the affirmative and 1 nay, consistent with Rhode Island General Laws section 36-8-6, *Votes of the Board—Record of Proceedings*, there being a majority vote of the members present and voting at which a quorum was present, it was

VOTED: To use the return on the actuarial value of assets (AVA) for purposes of determining periodic cost of living adjustments (COLA).

The Treasurer asked if there were any additional questions of Mr. Newton before the video call was ended. Mr. Maguire asked Mr. Newton if he could provide the rates of return of investment as far back as possible. Mr. Newton said all he has is what was

provided in the presentation but he did get 10 years of information from State Street Bank & Trust Company and will provide that to Director Karpinski. The Director said he would provide that information to the Board.

V. Administrative Decisions

Disability Appeal –Edward J. Young vs. ERSRI

Included in the board books, under separate cover, were the Findings of Fact as concluded by the Disability Subcommittee, transcripts from the appeal to the Disability Subcommittee, the hearing from the full Board from the September Board meeting, and medical and supporting information for the matter of *Edward J. Young vs. ERSRI*.

Attorney Robinson asked if consistent with Regulation Number 9, *Rules pertaining to the application to receive an Ordinary or Accidental Disability Pension*, there were any written briefs, legal memoranda, or exceptions to the conclusions and recommendation of the Disability Subcommittee which must have been submitted to the Executive Director not later than 10 days prior to the hearing. Director Karpinski apprised the Board that there have not been any more filings and that all the information that was received relevant to the case from the Disability Subcommittee was included in Board members' books.

Attorney Robinson then said that pursuant to ERSRI's regulations, each party to the proceeding has the right to appear and to make oral arguments before the Retirement Board. Consistent with the Board's long standing policy, he apprised the appellant that this is not an opportunity to present new factual material or evidence to the Board. He said the Board affords deference to the conclusions of its Disability Subcommittee on factual determinations and questions of credibility and will not overturn those determinations and assessments unless they are found to be clearly wrong. Attorney Robinson apprised the Board that Mr. Young was being represented by Attorney Mark P. Gagliardi.

The appellant was sworn in. Attorney Robinson then provided a synopsis of the *Edward J. Young vs. ERSRI* matter. There being a stenographer present, the parties presented their cases. John J. Meehan recused himself from the *Edward J. Young vs. ERSRI* matter.

At the conclusion of the hearing a motion was made by Michael R. Boyce and seconded by Roger P. Boudreau to overturn the decision of Disability Subcommittee which denied Mr. Young's application for accidental disability benefits. A roll call was taken. The following members voted Yea: William B. Finelli; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; John J. Maguire and Louis M. Prata. The following members voted Nay: General Treasurer Gina M. Raimondo; Gary R. Alger, Esq.; Daniel L. Beardsley; Susan Knorr Rodriguez as designee for Richard A. Licht; Thomas A. Mullaney and Jean Rondeau.

There being 12 votes cast, 6 voted in the affirmative and 6 voted nay, consistent with Rhode Island General Laws §36-8-6, *Votes of the Board -- Record of Proceedings*, there was not a majority vote of the members present and voting at which a quorum was present, accordingly the motion failed.

Attorney Robinson apprised the Board that another motion should be made to affirm the decision of the Subcommittee denying Edward J. Young's application for disability benefits. A motion was then made by Thomas A. Mullaney and seconded by Jean Rondeau to uphold the decision of the Disability Subcommittee denying Edward J. Young's application for disability benefits.

A roll call was taken. The following members voted Yea: General Treasurer Gina M. Raimondo; Gary R. Alger, Esq.; Daniel L. Beardsley; Susan Knorr Rodriguez designee for Richard A. Licht; Thomas A. Mullaney and Jean Rondeau. The following members voted Nay: William B. Finelli; Roger P. Boudreau; Michael R. Boyce; M. Carl Heintzelman; John P. Maguire and Louis M. Prata.

There being 12 votes cast, 6 voted in the affirmative, and 6 nay, consistent with Rhode Island General Laws §36-8-6, *Votes of the Board – Record of Proceedings*, there was not a majority vote of the members present and voting at which a quorum was present, accordingly the motion failed.

Attorney Robinson referred the Board to the tie-vote resolution procedure contained in ERSRI Regulation No. 4 and said that consistent with that procedure, the matter will be postponed for further consideration at the next Board meeting, which will be June 13, 2012.

Mr. Boyce offered a suggestion that the matter be remanded back to the Disability Subcommittee to consider the Supreme Court's decision referenced by Mr. Young's Attorney, Mark P. Gagliardi, to consider if it has any relevance. Attorney Robinson said that it would be up to the Board to decide whether or not to remand the matter to the Disability Subcommittee. A discussion ensued regarding the merits of remanding the matter. At the conclusion of the discussion, no motion was made to remand the matter and consistent with ERSRI Regulation No. 4, the matter was postponed to the next Board meeting, which will be June 13, 2012.

Administrative Appeal – Linda L. Phillips vs. ERSRI

Included in the Board Members' Books was the Hearing Officer's written decision, along with exhibits and supporting information in the matter of *Linda L. Phillips vs. ERSRI*. Attorney Robinson asked if consistent with Regulation Number 4, *Rules of Practice and Procedure for Hearings*, there were any written briefs, legal memoranda, or exceptions to the decision of the Hearing Officer which must have been submitted to the Executive Director not later than 10 days prior to the hearing. Director Karpinski apprised the Board that there had been and the information was included in the Board book.

Attorney Robinson then said that pursuant to ERSRI's regulations, each party to the proceeding has the right to appear and to make oral arguments before the Retirement Board. Consistent with the Board's long standing policy, he apprised the appellant that this is not an opportunity to present new factual material to the Board, and that pursuant to ERSRI's regulations and Rhode Island case law, the Board owes deference to the Hearing Officer on factual determinations and questions of credibility, and cannot overturn the Hearing Officer on determinations of fact or credibility unless such determinations are found to be clearly wrong.

Attorney Robinson then asked the appellant's Attorney, Vincent P. Santaniello, if Ms. Phillip would be making any presentation or oral argument before the Board. The

appellant was then sworn in by the stenographer. Attorney Robinson then provided a synopsis of the *Linda L. Phillips vs. ERSRI* matter. There being a stenographer present, the parties presented their cases.

At the conclusion of the hearing a motion was made by William B. Finelli and seconded by Roger P. Boudreau to overturn the Hearing Officer's decision and to award Ms. Linda L. Phillips service credit for time she was on reduced hours. A roll call was taken. The following members voted Yea: William B. Finelli; Roger P. Boudreau; Michael R. Boyce; John P. Maguire; John J. Meehan, and Louis M. Prata. The following members voted Nay: General Treasurer Gina M. Raimondo; Gary R. Alger, Esq.; Daniel L. Beardsley; M. Carl Heintzelman; Susan Knorr Rodriguez designee for Richard A. Licht; Thomas A. Mullaney and Jean Rondeau.

There being 13 votes cast, 6 voted in the affirmative and 7 voted nay, consistent with Rhode Island General Laws §36-8-6, *Votes of the Board -- Record of Proceedings*, there was not a majority vote of the members present and voting at which a quorum was present, accordingly the motion failed.

Attorney Robinson said that a motion needs to be made to affirm and adopt the recommendation of the Hearing Officer. Thus, a motion was made by Jean Rondeau and seconded by Gary R. Alger, Esq., to uphold the Hearing Officer's decision denying Ms. Phillips service credit for time she was on reduced hours. The following voted Yea: General Treasurer Gina M. Raimondo; Gary R. Alger, Esq.; Daniel L. Beardsley; M. Carl Heintzelman; Susan Knorr Rodriguez as designee for Richard A. Licht; Thomas A. Mullaney and Jean Rondeau. The following voted Nay: William B. Finelli; Roger P. Boudreau; Michael R. Boyce; John P. Maguire; John J. Meehan and Louis M. Prata.

There being 13 votes cast, 7 voted in the affirmative and 6 nay, consistent with Rhode Island General Laws section 36-8-6, *Votes of the Board--Record of Proceedings*, there being a majority vote of the members present and voting at which a quorum was present, it was

VOTED: To uphold the decision of the hearing officer and deny Linda L. Phillips the ability to purchase service credit for time she was on reduced hours.

VI. Approval of the April Pensions as Presented by ERSRI

On a motion by Michael R. Boyce and seconded by John P. Maguire it was unanimously

VOTED: To approve the April pensions as presented.

VII. Legal Counsel Report

Attorney Robinson apprised the Board on the matter of a new decision from the Superior Court in the *Nancy Langlois vs. ERSRI* matter. He said the Court remanded the matter back to the Board for further proceedings. Attorney Robinson said he would communicate with Director Karpinski about how to implement what the Court ordered.

VIII. Committee Reports

Disability Subcommittee: The Disability Subcommittee recommended the following actions on disability applications for approval by the full Board as a result of its meeting on May 4, 2012:

Name	Membership Group	Type	Action
1. Stephen Limoges, Sr.	State	Accidental	Postpone
2. Diane Diprete-Sparling	Teacher	Ordinary	Postpone
3. Raymond Hoyas	State	Ordinary	No action taken
4. Eugene Bedard	State	Accidental (<i>New Law</i>)	Deny
5. Joseph Theroux	Municipal	Accidental	Deny
6. Francisco Deaguiar	Teacher	Ordinary	Approve
7. Bonnie Coletta	State	Ordinary	Approve

On a motion by William B. Finelli and seconded by Michael R. Boyce, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, May4, 2012 on items 2 and 6.

John P. Maguire recused himself from the vote on numbers 2 and 6.

On a motion by William B. Finelli and seconded by Michael R. Boyce, it was unanimously

VOTED: To approve the recommendation of the Disability Subcommittee meeting of Friday, May 4, 2012 on items 1, 3, 4, and 5.

Procurement Subcommittee: Director Karpinski said the Procurement Subcommittee met on May 3, 2012 to discuss a proposal for fiduciary liability insurance. The Director acknowledged those in attendance; namely, Mark A. Dingley, Esq., William B. Finelli, Louis M. Prata, Jean Rondeau, and Liz Leach as designee for Thomas Mullaney, Attorney Michael P. Robinson, as well as the State's Risk Manager, Kevin Carvalho, Risk Consultant, William K. Austin and the State's independent insurance agent, Sean R. Donaghey, CPCU who assisted the Committee in evaluating the proposal.

Director Karpinski said that he, Attorney Robinson and Kevin Carvalho previously worked with Chartis Insurance to formulate the scope of coverage and adjust the proposed policy. The insurance proposals are such that they require the Board to indemnify individual Board members to the fullest extent allowable by law. The Board presently has no regulation in place addressing indemnification of Board members

should a claim be brought against them in connection with their official duties. In order to properly analyze the proposed coverage being offered and the cost of the coverage, he said the Subcommittee felt that the matter should be referred to the Rules and Regulations Subcommittee first for consideration of development of a regulation addressing indemnification of Board members.

Director Karpinski apprised the Board that the nature of the coverage being proposed, and the costs to be paid by the Board in connection with the proposed coverage, are to a large degree dependent on the Board indemnifying individual members, the Subcommittee felt that the Rules and Regulations Subcommittee should review the indemnification issue before any decision was recommended regarding the proposed insurance coverage presently being offered.

Consequently, the Subcommittee recommended postponing the decision to procure fiduciary liability insurance, and recommended referral of the matter to the Rules and Regulations Subcommittee. On a motion by Roger P. Boudreau and seconded by William B. Finelli, it was unanimously

VOTED: To accept the report of the Procurement Subcommittee and the recommendation to refer the matter to the Rules and Regulations Subcommittee.

IX. New Business

Mr. Boudreau thanked Director Karpinski on the meeting to discuss the SRA Social Security Option and affected retirees. Mr. Boudreau said the next step is to teleconference with the actuary to help further understand the actuarial impact on the option. He said there are 6,810 State and teachers and 680 MERS employees who have exercised the option and roughly one third who are pre 62 years of age. He said he will report his findings to the legislative subcommittee to consider any adjustments to the benefit option.

X. Adjournment

There being no other business to come before the Board, on a motion by William B. Finelli and seconded by Roger P. Boudreau the meeting adjourned at 11:32 a.m.

Respectfully submitted,

Frank J. Karpinski

Executive Director